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August 31, 2015

To the Board of Commissioners
Lansing Board of Water and Light

We have audited the following financial statements (collectively referred to as the "BWL") as of and for the year ended June 30, 2015 and have issued our report thereon dated as noted below:

- Board of Water and Light - City of Lansing, Michigan - report dated August 31, 2015
- Lansing Board of Water and Light Retiree Benefit Plan and Trust - report dated August 28, 2015
- Lansing Board of Water and Light Employees' Defined Contribution Pension Plan - report dated August 28, 2015
- Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan - report dated August 28, 2015

Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Board of Commissioners at the BWL.

Section II contains updated informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the BWL's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the Board of Commissioners and management of the BWL and is not intended to be and should not be used by anyone other than these specified parties.

The BWL's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

Douglas D. Rober, CPA
Partner

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 6, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of BWL. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 14, 2015.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the BWL are described in Note 1 to the financial statements. As described in Note 16, the BWL adopted GASB No. 68 during the fiscal year ended June 30, 2015. GASB No. 68 required the measurement of the net pension asset associated with the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan to be recorded within the BWL's financial statements. In addition, the disclosures within Note 8 have changed considerably along with the related schedules in the required supplemental information.

We noted no transactions entered into by the BWL during the year for which there is a lack of authoritative guidance or consensus other than the income statement reporting related to the change in certain regulatory assets from year to year. The BWL board approved in prior reporting years regulatory assets/liabilities for the BWL's energy cost adjustment (ECA), fuel cost adjustment (FCA), and power cost adjustment (PCA) which impact the amounts billed to customers to reflect the difference between the BWL's actual material costs and the amounts incorporated into rates. The BWL records the year-to-year change in the ECA, FCA, and PCA within revenue. GASB 62 paragraph 480 indicates that a regulated entity should capitalize incurred costs that would otherwise be charged to expense if it is probable that "future revenue" equal to the capitalized cost will result from inclusion of that cost for rate-making purposes, and that future revenue will permit recovery of the previously incurred cost. The standard is not explicit in the schematics of the accounting for such transactions on the income statement side (whether the adjustment to the capitalized cost from one year to the next should be recorded to revenue or expense). The BWL's position, largely based on what they have indicated is industry practice, is that the adjustment should be recorded to revenue, as the additional costs over and above the amounts built into rates relate to service already provided and therefore amounts earned, even if the billing rate does not reflect the additional costs until the following period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were unbilled accounts receivable, environmental remediation, capitalized indirect costs, and the use of regulatory assets and liabilities.

Management's estimate of unbilled accounts receivable is based on the number of days unbilled and the average daily usage from the previous month's meter readings. We evaluated the key factors and assumptions used to develop unbilled accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the environmental remediation valuation is based on studies performed by the BWL's environmental engineers and third-party consultants. We evaluated the key factors and assumptions used to develop the environmental remediation valuation in determining that it is reasonable in relation to the financial statements taken as a whole.

Capitalized indirect costs are based on budgetary information estimated by finance and accounting personnel. We evaluated the key factors and assumptions used to develop the capitalized indirect costs in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's use of regulatory assets and liabilities is based on board approval for these types of transactions. We ensured all transactions for which regulatory accounting was applied had board approval in a prior year and there were no new items approved for the current year. We evaluated the key factors and assumptions used to calculate the balances related to the regulatory assets and liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were recoverable costs (see Note 6) and commitments and contingencies (see Note 9).

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as BWL's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the August 31, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the BWL’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Informational Items

Excel Audit Schedules

During the performance of audit procedures, two adjusting journal entries were identified resulting from formula errors within Excel audit schedules. These errors were not identified during the BWL's review process. The first Excel formula error identified required a reduction to the workers' compensation IBNR liability of $500,000. The second Excel formula error identified required an adjustment to the Retiree Benefit Plan and Trust benefit payments and contributions of $525,000. The use of Excel audit schedules provides a risk of manual errors, which if not caught during the review process could lead to misstatement of the financial statements.

Inventory Procedures

It was noted that store inventory items with a value totaling approximately $936,000 at June 30, 2015 was not subject to cycle counting during the fiscal year. In the absence of a year-end physical inventory count, cycle counting of all inventory items during the year is important to ensure valuation at year-end is appropriate. In addition, there were a higher number of errors noted during the June 30, 2015 audit inventory counts than in previous years. Although the value of items not subject to cycle counting or the errors noted in audit inventory counts were not material, we recommend that the BWL attempt to include all store inventory items in their cycle counting procedures. In addition, there were certain non-inventory items being stored within the warehouse without proper identification. We recommend that non-inventory items be identified as such.

New Other Post-Employment Benefits Standards

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, addresses reporting by OPEB plans whereas GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees.

Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the BWL will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The BWL is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016 (the BWL's year end of June 30, 2017) whereas GASB 75 is effective one year later.

As of the most recent actuarial valuation dated February 28, 2015, the unfunded actuarially accrued liability within the VEBA plan was $42.6 million.

New Rules Governing Management of Federal Programs

The Office of Management and Budget (OMB) has issued significant reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. All entities receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make changes to internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015, the threshold for obtaining a federal awards audit will increase from the current threshold of $500,000 of annual federal spending to $750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some clients.

   The BWL has been below the current $500,000 threshold in recent years. However, from time to time, depending upon the level of federal spending, the BWL may still be subject to an audit requirement even at the new higher $750,000 threshold.

2. **Cost Principles** - Effective for all federal awards received on or after December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs.

3. **Administrative Requirements** - Also effective for all federal awards received on or after December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the BWL's procurement systems, including maintaining written conflict of interest policies and disclosures.

These revisions are clearly the most significant change to occur to federal grants management in recent history. Entities receiving federal funding will need to carefully digest these changes. Plante & Moran, PLLC has been on the cutting edge of these reforms, offering our clients free webinars, implementation checklists and other tools to aid in implementation. The implementation date is already upon us and the BWL will need to ensure that the implementation of the new regulations occurs in a timely and complete manner. Plante & Moran, PLLC has many experts in this area and welcome any questions or needs you may have.